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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 003164

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TAGS: [ECON](#) [ETRD](#) [PREL](#) [APECO](#) [JA](#)
SUBJECT: METI SAYS ASEAN PLUS 3 FTA "INEVITABLE"

Classified By: Deputy Chief of Mission Joe Donovan.
Reason: 1.4 (b/d)

11. (C) Summary: Japan is in no position to oppose an almost certain Chinese-led consensus among the other 12 member countries of the ASEAN Plus Three to pursue a regional free trade agreement (FTA), according to a senior official of Japan's Ministry of Economy, Trade, and Industry (METI). Therefore, the best outcome for Japan would be subsequently to broaden (by including India, Australia, and New Zealand) and deepen (by seeking coverage of sectors like IPR and investment) the proposed FTA. The official acknowledged the need for close U.S.-Japan consultations on the Asian regional architecture and said that METI Vice Minister Kusaka looked forward to discussing this subject in Washington DC on June 14. End summary.

Relations with China Improving

12. (C) The May 27 meeting in Kyoto between METI Minister Toshihiro Nikai and Chinese Commerce Minister Bo Xilai was significant as it marked the first ministerial-level exchange in Japan between China and Japan since the visit of Chinese Vice Premier Wu Yi a year earlier, according to METI Trade Policy Director Toshiaki Kitamura. Meeting with U.S. Ambassador to APEC Michael Michalak on June 6, Kitamura said that Nikai had held the meeting in the State Guest House in Kyoto (where President Bush had stayed last November) at the urging of Prime Minister Koizumi. Bo had been visiting Japan to attend a Sino-Japanese forum on energy saving and environmental protection, and Kitamura emphasized that China had sent an impressive delegation, including not only Minister Bo but also Vice Chairman Jiang Weixin of China's National Development and Reform Commission and the heads of a number of electric power and steel companies. Kitamura indicated the forum signaled a turn for the better in relations between China and Japan.

ASEAN Plus Three-based FTA Talks Inevitable

13. (C) Turning to activities surrounding the recent APEC meeting of Ministers Related to Trade (MRT), Kitamura said that Trade Minister Nikai had characterized the June 2

breakfast meeting of trade ministers from the United States, Japan, Australia, and Singapore as having been very helpful in allowing the ministers of those four key economies to discuss serious issues in an informal and less stilted setting than the main APEC meetings. Kitamura, who had accompanied Nikai, noted that the remarks of Singapore Trade and Industry Minister Lim Hng Kiang on the dynamic surrounding regional free trade agreements deserved particularly close attention. According to Kitamura, Lim had stated flatly that the report of the group of experts led by a Chinese academic on a framework for an ASEAN Plus Three FTA would receive the endorsement not only of the ASEAN Plus Three economic ministers in August but also of the leaders of the thirteen ASEAN Plus Three countries when they met at the end of the year. Kitamura said Lim then outlined a three stage strategy in which the initial FTA negotiations among the 13 ASEAN Plus Three states would lead quickly to an "ASEAN Plus Six" negotiation including Australia, New Zealand, and India. With the completion of that agreement, the stage would be set for a subsequent FTA negotiation to include all the economies of APEC. Kitamura added that these remarks of Lim appeared to be the official position of the Government of Singapore as Singapore Foreign Minister George Yeo had outlined the same strategy in a separate meeting.

14. (C) Kitamura said the mechanism by which the ASEAN Plus Three FTA negotiations would begin was unclear. One possibility was that the 13 countries might initiate a joint study group; another was for negotiations to start directly at some appropriate time in 2007. Whatever the mechanism, however, and despite Japan's reservations regarding the probable exclusion of issues important to

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Japan such as intellectual property protection and investment provisions, Japan, Kitamura stressed, was in no position to oppose the growing consensus within the ASEAN Plus Three to move forward on an agreement. Both China and South Korea, he noted, had completed their own individual free trade agreements with ASEAN and, consequently, had no reservations regarding the establishment of a broader ASEAN Plus Three arrangement.

China Not Interested in "Serious" FTA

15. (C) China, Kitamura stated, viewed these free trade agreements as more of a political than an economic exercise and were not interested in the creation of a serious, advanced regional free trade agreement. The Chinese were enticing the ASEAN countries into their orbit with the lure of the vast Chinese domestic market. Kitamura stressed that the recent proposal for a regional FTA that included Australia, New Zealand, and India raised by Minister Nikai had aimed at countering the Chinese-backed ASEAN Plus Three proposal. As a result of Nikai's proposal, the ASEAN Plus Three experts group had now had to address the Nikai proposal's main points in their own report, which left the door open to expanding (through the addition of Australia, New Zealand, and Singapore) and deepening (by including provisions on intellectual property and investment) the ASEAN Plus Three-based initiative likely to be endorsed at the end of this year. Kitamura indicated satisfaction that METI's action had positively affected the experts' group report, which is due to be completed at the end of June. Even the Chinese leadership had had to take note of Minister Nikai's proposal, Kitamura added.

16. (C) Amb. Michalak commented that China had proffered a great deal of resistance to the FTA model measures being discussed in APEC and asked Kitamura for METI's analysis of the impact of the existing FTA between China and ASEAN. Kitamura responded that the China-ASEAN FTA had, in the near term, clearly benefited the ASEAN countries by offering increased access to the Chinese market for ASEAN-

produced agricultural exports. In the midterm, however, China would likely have the greater advantage because of increased access for its manufactured products to ASEAN. In addition, China, which had no significant investments in ASEAN, was not eager to expand the content of its existing FTA with ASEAN beyond trade in goods. For Japan, which has extensive investment in Southeast Asia, however, it would be imperative for any agreement with ASEAN to include investment-related provisions such as IPR protection and dispute settlement mechanisms, Kitamura stressed.

Leadership Transition Complicates Interagency Response

17. (C) Kitamura indicated that interagency discussions by the GOJ on how to respond to the likelihood of the endorsement of the proposal for an ASEAN Plus Three FTA were progressing. The fact that the ASEAN Plus Three economic ministers' meeting in August would take place during the term of the current Japanese Cabinet but that the leaders' meeting would take place following the installation of a new Prime Minister and Cabinet complicated these discussions, he added. According to Kitamura, METI Vice Minister Kazumasa Kusaka was looking forward to discussing the issue of future economic architecture in East Asia in the June 14 sub-cabinet dialogue in Washington.

Comment

18. (C) Even as he noted the current improvement in relations with China, Kitamura highlighted once again Japan's fear of separating itself from other Asian countries in the face of China's growing influence -- and the degree to which it has proven incapable of addressing that concern. Nikai's proposal for an ASEAN Plus Six FTA

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appears increasingly as a "face-saving" measure for the Minister. It allows him to claim a minor victory -- the hope of eventual consideration of an expanded regional agreement including Australia, New Zealand, and India -- even as he accepts the consensus on an ASEAN Plus Three FTA proposal. Although Kitamura criticized China for putting politics ahead of economics in its FTA strategy, the extent to which the Japanese seem prepared to put aside ostensible "imperatives" for any FTA in order to avoid isolation suggests the Chinese are not the only parties placing priority on their political interests in the region.

19. (U) Ambassador Michalak did not have a chance to clear this message before his departure.
SCHIEFFER